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EDITED TRANSCRIPT

NTAP - NetApp Inc to Acquire SolidFire

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OVERVIEW:

NTAP announced that it has signed a definitive agreement to acquire SolidFire for \$870m in cash.



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to your conference detailing NetApp to acquire SolidFire. At this time, all participants will be in a listen-only mode. But later there will be a chance to ask questions, and instructions will be given at that time. (Operator Instructions)

And now I'd like to turn it over to your host, Kris Newton, VP of Investor Relations.

Kris Newton - *NetApp, Inc. - VP IR*

Hello, and thank you for joining us. With me today are our CEO, George Kurian; and CFO, Nick Noviello. This call is being webcast live, and will be available for replay on our website at netapp.com.

As a reminder, during today's call we will make forward-looking statements and projections, which can be identified by the use of terms such as anticipate, believe, estimate and expect. Forward-looking statements and projections will be made regarding the impact of the SolidFire acquisition



on our financial outlook and future prospects, including on fourth quarter fiscal year 2016 and 2017 financial projections. Forward-looking statements will also be made with respect to our future access to new markets and customers, and our long-term growth opportunities.

All of these statements involves risk and uncertainty. Such statements reflect our best judgment based on factors currently known to us, and are being made as of today. We disclaim any obligation to update our forward-looking statements and projections. Actual results may differ materially from our statements and projections for a variety of reasons, including the closing of the acquisition, the response to the acquisition by the customers, employees and strategic and business partners of both companies, the ability to retain key SolidFire and NetApp personnel, and NetApp's ability to realize its broader strategic and operating objectives.

Please also refer to the risk factors in the documents we file from time to time with the SEC that can be found on our website, specifically our Form 10-K for fiscal year 2015, and subsequent Form 10-Q quarterly reports. I'll now turn the call over to George.

George Kurian - NetApp, Inc. - CEO

Thank you, Kris. And thanks, everyone, for joining us today. As I'm sure you've read or heard, NetApp has entered into a definitive agreement to acquire SolidFire, the market leader in all-flash storage systems built for the next-generation data center. This transaction complements our already strong all-flash array portfolio, positioning us as a leader in the rapidly-growing all-flash array market, and the only provider who can enable customers to build all-flash data centers.

We are excited to welcome the SolidFire team. This acquisition is meaningful for our customers, and expands our portfolio. We expect it will materially increase NetApp's long-term growth opportunity. As we've said before, customers are taking advantage of new applications and modern data center storage and data management architectures.

As a part of IT modernization efforts, many customers want to incorporate the performance of flash with scale-out and software-defined storage functionality for efficient management of data growth and service-provide-like flexibility.

SolidFire's highly differentiated web-scale all-flash array architecture uniquely gives customers the performance and economics of flash, with the added flexibility and efficiency of leading web-scale cloud providers. The acquisition of SolidFire will accelerate our entry into the next-generation data center market.

SolidFire's web-scale capabilities include a distributed-everything, shared-nothing, scale-out design; assured quality of service; self-healing, high-availability; and set-and-forget automation. These capabilities will enable us to address the rapidly-growing next-generation data center market, which values new consumption models, white-box economics, and radically simple operations.

SolidFire's architecture has earned the highest score for overall use case, as well as for multiple categories in Gartner's critical capabilities for solid-state arrays for the past two years. This unique architecture is delivered in a wide range of consumption models, including appliances, conversion infrastructure as a service, and software only.

Additionally, its focus on efficiency, radically-simple operations and rapid time to value, addresses many customer use cases otherwise solved by hyper-converged infrastructure solutions. SolidFire will enable us to access new customers and areas of spending, and thus we expect it to add more than 2 points to the growth profile of our business over time.

The all-flash array market is not a single monolithic market. The performance and continually improving economics of flash will drive its rapid adoption for a broad range of use cases. As the use cases expand, no single product or architecture can address all of the market requirements. For the traditional enterprise infrastructure buyer, our all-flash FAS product line is the only solution that delivers enterprise-grade features across flash, disk and cloud resources.



For the application owner, the NetApp EF-Series product line offers world-class performance benchmarks, with consistent low-latency performance and rock-solid reliability. Our all-flash FAS and EF offerings are a part of the growth area in our portfolio. Based on our second quarter fiscal year 2016 results, together they are on annualized revenue run rate of roughly \$370 million, up 165% from a year ago.

With this acquisition, NetApp will be uniquely positioned with offerings addressing each of the three largest all-flash array market segments. The combination of NetApp's industry-leading all-flash solutions for traditional enterprise requirements and SolidFire's differentiated solutions for web-scale next-generation use cases, accelerates the ability of enterprises and service providers to build all-flash data centers, and positions NetApp as the leader in the fastest-growing segment of the storage market.

I have talked about my approach to highly disciplined portfolio management. We must drive our portfolio and pivot our business towards growth, while being more efficient in the parts of our business that aren't growing in order to generate profits that can be both returned to shareholders, and leveraged for investment to deliver innovation.

This acquisition is an excellent example of our investment in areas of growth. However, investments such as this are not without tradeoff. We will immediately discontinue our FlashRay program, and will not bring the FlashRay product to market. The FlashRay program created substantial intellectual property, including 18 issued patents, and 55 patents pending. Much of this IP is currently integrated into NetApp products, or available for future development.

Both NetApp and SolidFire have built cultures with a strong customer focus and a commitment to continuous innovation. I'm excited to continue to strengthen the value of the NetApp portfolio with the SolidFire team, architecture, products and partner ecosystem. I will now turn the call over to Nick to discuss the financial aspects of the transaction.

Nick Noviello - NetApp, Inc. - EVP Finance, CFO

Thanks, George. And good afternoon, everyone. I'd like to start by briefly reviewing the details of the transaction. NetApp has signed a definitive agreement to acquire SolidFire for \$870 million in cash. We expect to close this transaction in the fourth quarter of this fiscal year, subject to customary closing conditions, including regulatory approval.

The agreement has been unanimously approved by both the NetApp and SolidFire Boards of Directors. We intend to fund the acquisition with debt. The acquisition will not impact our capital allocation plans around repurchases and dividends. We remain on track to complete our \$2.5 billion share repurchase program by the end of May 2018, with \$1 billion of repurchases expected to be completed by the end of May 2016.

Further, we are reaffirming the Q3 financial guidance we provided on November 18, including the payout of our next cash dividend of \$0.18 per share of the Company's stock to be paid on January 20, 2016 to shareholders of record as of the close of business on January 8, 2016.

Assuming a Q4 close, we expect the SolidFire acquisition will have an immaterial impact to revenue, but an unfavorable impact to our GAAP and non-GAAP operating profits, operating margin, and EPS for the fourth quarter, and the fiscal year 2016. Based on our preliminary estimates, we expect non-GAAP operating margin adjusted for the impact of the acquisition to be approximately 16.5% for the second half of fiscal 2016.

Beyond this fiscal year, we are excited about the potential of the SolidFire acquisition to further the top-line growth of NetApp. By combining SolidFire's market-leading all-flash storage systems with our powerful portfolio of solutions, we believe we can accelerate NetApp's top-line growth opportunity by over two points. That benefit, however, will take time and investment. As such, for fiscal 2017, we anticipate immaterial top-line benefit, but earnings per share dilution.

For perspectives based on our preliminary estimates, we expect the transaction, net of the cost savings from termination of the FlashRay program, will reduce non-GAAP EPS in fiscal year 2017 by approximately \$0.25 to \$0.30 per share. You can appreciate that only preliminary numbers are currently available to us. So these estimates may ultimately change. We will have more complete information for you after the transaction closes, and we will discuss the financial impact of the transaction in greater detail on our Q3 earnings call.

In closing, I echo George's excitement about today's announcement, and I look forward to welcoming the SolidFire team to NetApp. I will now turn the call back to Kris for Q&A. Kris?

Kris Newton - NetApp, Inc. - VP IR

Thanks, Nick. We'll now open the call for Q&A. Please be respectful of your peers, and limit yourself to one question, so we can get to as many as possible. Thanks for your cooperation. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Alex Kurtz, Sterne

Alex Kurtz - Sterne Agee & Leach - Analyst

Yes, thanks, guys. And thanks for taking the question. George, when you think about the integration with ONTAP and the Snap family of products like SnapMirror, what's the 12 to 18-month view on integration with SolidFire with that technology where you could potentially provide a unified data platform for existing customers who have existing FAS products?

George Kurian - NetApp, Inc. - CEO

Well, we will make details of product roadmaps clearer once we have the transaction closed. I think it would not be out of line to believe that you would be able to see the benefits of the integration between both SolidFire and our clustered data ONTAP operating system using our portable SnapMirror replication engines to enable for complex use cases, such as integrated development and production environments, as well as for the web-scale data center, the integration between SolidFire and our storage grid object storage platform, enabling both high-performance, all-flash environments, as well as seamlessly integrated object storage environment.

SolidFire today operates as an independent company. And we will make the integrations of our roadmaps clearer once the transaction closes.

Alex Kurtz - Sterne Agee & Leach - Analyst

Thank you.

Kris Newton - NetApp, Inc. - VP IR

Thanks, Alex. Next?

Operator

Steven Fox, Cross Research



Steven Fox - Cross Research - Analyst

Thanks. Good afternoon. I guess just following up on that in terms of integrating the business, you mentioned in the press release that senior management plans to stay with the Company. Do you anticipate the transaction having any other broader impacts on how you run the business in the first 12 to 18 months? And can you just talk about how you get to a positive return on investment for this, and over what timeframe? Thanks so much.

George Kurian - NetApp, Inc. - CEO

Let me hit a few high-level points. I think we are acquiring SolidFire because it allows us to address a new segment of the fastest-growing part of the storage market, the all-flash array market. We think that SolidFire's web-scale all-flash array architecture allows us to compete for new customers and new spending that adds to the growth of NetApp's business over time.

In terms of the integration plan itself, SolidFire will operate as a product line, beyond as a product line within the NetApp portfolio, and will benefit from our reach into customers, pathways, and all of the partner relationships that we have. We will provide more details of the integration plan as well as the financial outlook, as part of our standard earnings calls, and after the close of the transaction.

Kris Newton - NetApp, Inc. - VP IR

Thanks, Steve.

Operator

Joe Wittine, Longbow Research

Joe Wittine - Longbow Research - Analyst

Hi, thanks. Nick, I appreciate the direct dilution numbers. I just want to confirm the 16.5% projected EBIT in the second half. That's about a 100-basis point headwind? Is that the right way to think about it? And with the assumption that you're not going to get nearly a full third quarter of revenues there, I'm looking at a rough annualized burn rate, or excuse me, a non-GAAP loss rate approaching \$100 million. Is that just a fair way to roughly size this up?

Nick Noviello - NetApp, Inc. - EVP Finance, CFO

So thanks for the question, Joe. And good afternoon. So a couple of points for you. So we don't expect this is going to close during our fiscal Q3. So we will close this in our fiscal Q4. So what I'm talking about is our second half guidance. And you probably recall from our last earnings call in November that I anticipated that our non-GAAP operating margin for the second half of the fiscal year would come in just under 18%. That is the number where I'm saying reflective of this acquisition, our second half will be closer to 16.5% non-GAAP operating margin.

So that's how I would look at fiscal year 2016. In terms of fiscal year 2017, I'm trying to give you just a high level, based upon our really preliminary estimates, what that would look like, and what that would do in terms of dilution next year. And that would be again net of the cost savings from the termination of FlashRay, about \$0.25 to \$0.30.

Obviously we'll come back with much more detail around that once we actually close the transaction, which again we expect to occur in our Q4. And not only then, but also as we give guidance for next year, which as you know, I typically give in May.

Kris Newton - NetApp, Inc. - VP IR

Thanks, Joe.

Operator

Andrew Nowinski, Piper Jaffray

Andrew Nowinski - Piper Jaffray - Analyst

All right. Thanks a lot. I know you said you expect to sell the SolidFire platform to a different buyer, the next-generation infrastructure buyer. But really, you know, what customer isn't a next-generation buyer? Obviously no one would want a legacy technology. So I guess given SolidFire's ability to offer guaranteed levels of performance by customer, in a multi-tenant environment, shouldn't we expect this acquisition to improve your position initially in the service-provider market?

George Kurian - NetApp, Inc. - CEO

We think that SolidFire has technologies that certainly help service providers deploy highly efficient and flexible web-scale environments that allow service providers to build capabilities using SolidFire technology that compete with the larger hyper-scale providers. We also see several enterprises and a growing number of them, wanting to deploy similar technology for their own premises. And so we think that this allows us opportunities to both accelerate our capabilities within the cloud service provider market, as well as for enterprises that want to deploy web-scale environments on premises.

Applications such as NoSQL databases, Hadoop environments, Dev Ops, are examples that are tailored for use cases that we refer to as next-generation web-scale data centers.

Kris Newton - NetApp, Inc. - VP IR

Thanks, Andy. Next question?

Operator

Aaron Rakers, Stifel

Aaron Rakers - Stifel Nicolaus & Company, Inc. - Analyst

Yes. Thanks for taking the question. I just want to go back to the financial model. I know that you had talked about 2 percentage points of incremental revenue growth. I just wanted to understand. Is that a realization of 2 percentage points of incremental growth for the fiscal 2017 period, and that's what you're basing the dilution off of? Or is that 2 percentage points something to be attained thereafter?

Nick Noviello - NetApp, Inc. - EVP Finance, CFO

Thanks, Aaron. It's Nick. So real quick, so that is something that obviously is going to take some time. We see real opportunity here, and we're very excited about it. That's where we say, we think this acquisition helps to increment the top-line growth opportunity for NetApp, and that's that 2% number we're talking about.



For 2017, we're building in really what will look like an immaterial revenue impact to the overall of the firm. And that's where I talk about the dilution side of the fence. Okay, so the 2 points is absolutely something we are confident in. It takes time and it takes some investment. Obviously 2017, or fiscal 2017, is going to be a fiscal year of that time and investment.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Aaron. Next question?

Operator

Rich Kugele, Needham

Rich Kugele - *Needham & Company - Analyst*

Thank you. Good afternoon. Just a couple question, I guess first SolidFire, while traditionally had been known in the service provider community because of its scale-out and QoS and massive capacity in very tight packaging. They also had gotten into the commercial accounts in a big way over the past year. And so I'm a little bit confused on how to position it versus your all-flash FAS product, which had many of the components of [Mars] in it.

Just-- can you just elaborate a little bit more about how this isn't going to just cannibalize that product line over time? And then as a follow up, one of the other interesting things SolidFire was up to was Element X. Is this something you intend on continuing? Thanks.

George Kurian - *NetApp, Inc. - CEO*

So let me address those two questions. The first one is how does SolidFire's web-scale all-flash array architecture compare with all-flash FAS? All-flash FAS is targeted at the enterprise infrastructure buyer who values rich storage services as part of their infrastructure buying criteria. These could be things like integrated replication; the ability to seamlessly tier data across flash, disk, and the cloud; the ability to have complex and sophisticated data protection capabilities like vaulting, asynchronous mirroring or synchronous replication. And so it's targeted at the enterprise buyer who values a lot of storage services built into their storage arrays. And we think it is industry-leading for that set of use cases, displacing legacy monolithic frame arrays, for example.

SolidFire complements the all-flash FAS use cases within customers, because it is targeted at customers that want to deploy an Amazon or a Google-like highly distributed, shared-nothing environment, built on top of white-box economics. The value of SolidFire is in their highly distributed software operating system that can allow people to deploy agile Dev Ops environments or web-scale environments very, very quickly, and very consistently. So they're complementary. And we think that it allows us to access new spending within customers, especially for third platform use cases.

With regard to Element X, while it is early to comment on roadmaps, which we will clarify post-transaction, we think that SolidFire brings a lot of highly valuable paths to market. And we intend to continue as many of those as the SolidFire team and us agree that makes sense. So for now, we intend to continue the Element X program.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Rich. Next question?

Operator

Jayson Noland, Baird

Jayson Noland - *Robert W. Baird & Co., Inc. - Analyst*

Okay, great. And just to confirm, I think you said \$370 million run rate for EF and all-flash FAS. Is that right?

George Kurian - *NetApp, Inc. - CEO*

That's correct.

Jayson Noland - *Robert W. Baird & Co., Inc. - Analyst*

And which is-- how should we think about these specific submarkets? Is all-flash FAS a bigger market? Or is the SolidFire AFA market bigger?

George Kurian - *NetApp, Inc. - CEO*

SolidFire's market is bigger and faster growing than the all-flash FAS market. I think it represents the choices that customers make to deploy web-scale designs increasingly in their data centers, and especially as flash and web-scale converge, we certainly believe we're going to be the leader in that market for those types of customers.

The all-flash FAS also addresses a substantial market opportunity for all of the traditional enterprise second platform infrastructure buyers who value rich storage services, and a movement from inflexible, traditional monolithic SAN arrays to more modular systems. And so those two, we think, are the big fastest-growing markets in storage.

Jayson Noland - *Robert W. Baird & Co., Inc. - Analyst*

Okay. And just as a follow up, George and Nick, you've said that acquisitions would be more considered, given the faster pace of the market here. Should we consider that that's still on the table, these larger more strategic decisions? Or would it be tuck-ins from here.

Nick Noviello - *NetApp, Inc. - EVP Finance, CFO*

So Jayson, it's Nick. Let me make sure that we're very clear. We have talked about a consistent view of generating a lot of cash, and then deploying our cash in a balanced way between investments in the business and to our shareholders. Acquisitions are part of that allocation mentality. We do not have a view that we must do an acquisition, a blank, fill in the timeframe.

We have a view that we do acquisitions where it makes sense to further the top line, to further the opportunity, to further the technology path of the Company. Many times those come in in tuck-ins. Other times they come in and it's larger transactions. We are obviously going to look at all of the above. But at the end of the day, we have to continually deploy our capital in the best way for the firm, for the long-term growth rate of the firm, for our shareholders' best interests. So I don't think there's any change in the consistency of our approach, and any change in terms of how we do it.

We are thrilled with the opportunity here. We think it supplements the long-term growth opportunity of the firm. And we found something with the technology that we also feel is very, very attractive. So we feel good about that. No change in terms of the overall strategy on capital deployment and how we do it.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Jayson. Next question?

Operator

Jason Ader, William Blair

Jason Ader - *William Blair & Company, LLC - Analyst*

Yes, thank you. The SolidFire guys have been pretty vocal in the past. I don't know if they're there with you right now. But they've said that they don't think that companies should maintain different pools of storage based on workload performance requirements, and that it's better to have a single system that can handle all workloads and basically define performance requirements based on the application. And obviously they have that QoS software that allow you to do that.

So how do you reconcile that comment that SolidFire has been going to market with, especially in the enterprise space, with the comments that you're going to have a separation in the market between all-flash FAS and SolidFire?

George Kurian - *NetApp, Inc. - CEO*

First of all, we think that SolidFire's intellectual property definitely allows customers to take advantage of building a single infrastructure that's powered by web-scale all-flash array technology. And the quality of service that you mentioned allows people to deploy very efficient shared storage environments with radically simple set-and-forget automated management. So all of that is compelling.

What we see within the customer base is choices that customers want to make. And it's really about preference and a practical perspective on preference. There are many customers that want to move towards next-generation environments. And there are several other customers that want the consistency of having rich storage services that they're familiar with, because of the operating environment in their own data centers.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Jason. Next question?

Operator

Simona Jankowski, Goldman Sachs

Simona Jankowski - *Goldman Sachs - Analyst*

Hi. Thank you for the guidance on next year's impact on the P&L. Can you give us a sense for over what timeframe you think you might achieve breakeven and then accretion, and similarly when we might expect to see the 2 points of incremental contribution to the top line?

Nick Noviello - *NetApp, Inc. - EVP Finance, CFO*

Hey Simona, it's Nick. Nice to talk to you this afternoon. No. I mean, what we've given you is a preliminary estimate, based upon our best view today. We've given you that view for our Q4. And we've given you that view for FY 2017. Obviously there's much more to talk about on this acquisition



as we move forward, as we close it, and as we give guidance into our full-year fiscal 2017. So much more to come, but that is to come once we close the acquisition.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Simona.

Simona Jankowski - *Goldman Sachs - Analyst*

So maybe then just as a--

Operator

Thank you. If you would like to re-queue for a question, you can hit star, one to re-queue. But we'll go through the ones presented. Rod Hall, JPMorgan

Rod Hall - *JPMorgan - Analyst*

Yes, hi guys. Thanks for taking the question. I just wanted to continue to clarify the financials. So if I calculate, call it \$3 billion of revenue the second half of 2016, fiscal 2016, then the differential in margin that you guys have called out would equate to \$40 million to \$45 million worth of additional cost in that fourth quarter. But I wanted to just check that that's correct math. And I also then wanted to ask you if that represents an entire quarter's worth of costs, or if you're guessing it's going to be a half a quarter worth of cost, just to help us understand kind of what the cost run rate as we start this is. And then any further detail you can give us on the numbers for fiscal 2017 that gets you to the outcome that you're talking about from a cost point of view.

I guess FlashRay, for instance, you should be taking some costs out from that? So how does that balance against the cost that comes in from SolidFire? Thanks.

Nick Noviello - *NetApp, Inc. - EVP Finance, CFO*

Sure, Rod. It's Nick. So I think there's a couple of different moving parts here that you should be aware of. Obviously we're going to, once we close the acquisition, we are going to put in, in Q4, a set of revenues and a set of costs, and further invest in SolidFire. In addition, over the course of Q4 and as we move forward, we are going to take out some of the investment in FlashRay, redeploy, take out, et cetera. All of those are things that are ahead of us. All of those are things that happen once we close an acquisition and move forward from there.

So in terms of the overall expectations, we've tried to give you a view of what that means to the non-GAAP results for Q4. We have not given Q4 revenue or EPS guidance. The only thing we had given you on our last call was a perspective of operating margins, non-GAAP operating margins for the second half of the year. And obviously you can get there based upon-- you can get to Q4 based upon our Q3 guidance.

So all I'm giving you at this point in time, given we haven't closed the acquisition, given we have integration and a whole set of things ahead of us here, is a perspective on what that looks like for the second half of the year. And that is the reduction from the just under 18% non-GAAP operating margin, to that 16.5% I talked about.

FY 2017 is even beyond there. So our best and most preliminary estimates at this point in time is that dilution that I talked about of approximately \$0.25 to \$0.30 per share. Obviously we have to continue to give you guidance on the impact of SolidFire once we close, the impact of FlashRay, the impact of our own business as we move forward into FY 2017.



So we're trying to give you some perspective at this point in time. That's the perspective I can give you.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Rod. Next question?

Operator

James Kisner, Jefferies

James Kisner - *Jefferies - Analyst*

Yes, just a quick clarification, and then a real question. Just wondering if you're going to share how much debt you plan to raise associated with this transaction. But in terms of the real question, I just want to understand the decision to discontinue FlashRay and how really connected it is to this acquisition. I mean my impression of FlashRay is that it wasn't really addressing this large service provider segment that SolidFire serves. So I'm wondering how you plan to address that, the market that FlashRay would have addressed. Is that going to be requiring some new products or retooling of your portfolio in other areas? Thanks.

Nick Noviello - *NetApp, Inc. - EVP Finance, CFO*

Okay, so James, it's Nick. Why don't I start, and then George will pick up from there? So first of all, we intend to fund the acquisition through debt. And as you know, our US cash is much lower now than it has been historically. So we're going to fund the acquisition through debt.

We expect that over the course of our FY 2017 we will actually repay that debt. We'll have more to say about that as we go forward. But we will put up a debt structure to finance the transaction. Okay?

George Kurian - *NetApp, Inc. - CEO*

With regard to your second question, we are pleased with the expanded capabilities of the all-flash FAS product line. As we mentioned, the flash essential technology innovations that we have integrated into all-flash FAS, as well as the new offers we've made to customers and channel partners, have driven material expansion of both the use cases and accelerated the growth of the all-flash FAS product line.

We feel that with all-flash FAS, we can cover the preponderant majority of the use cases that FlashRay used to be planned for. And with SolidFire, we can cover the remaining, as well as multiple new use cases that neither FlashRay nor all-flash FAS would have been able to cover. So we're very excited about SolidFire. We're also extremely pleased about the progress with our already strong all-flash array offerings, EF and all-flash FAS.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, James. Next question?

Operator

Nehal Chokshi, Maxim Group



Nehal Chokshi - *Maxim Group - Analyst*

Thank you. I've got a couple questions. First, is there a go-shop period on this SolidFire acquisition? Is that why it's going to take up to a month to close? And then secondly, you talked about this helps you compete against hyper-converged better. Can you talk about what is SolidFire's win rate when hyper-converged is involved? And maybe to help frame that up, compare that to what NetApp's FAS win rate is when hyper-converged is involved.

George Kurian - *NetApp, Inc. - CEO*

Let me take on the first and the second question. I'd ask that in the interest of allowing others to be able to ask questions that people ask one question at a time. But in terms of-- there is no go-shop period for this transaction. It is a private transaction. And so there is no go-shop period. We expect the transaction to close, as Nick said, in our fiscal Q4, based on customary closing conditions.

With regard to your question about hyper-converged infrastructure, what I was referring to was that customers of hyper-converged infrastructure solutions, as I've said before, value seamless scale-out, white-box economics, and radically simple set-and-forget management. Those are the customer benefits that hyper-converged solutions offer. And to the extent that SolidFire's all-flash array architecture delivers that set of capabilities in a modern web-scale all-flash design, we believe that will allow us to address the use cases that customers consider for hyper-converged solutions. And I'll just leave it at that.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Nehal. Next question?

Operator

James Suva, Citi

James Suva - *Citi - Analyst*

Thank you, and congratulations on the transaction and happy holidays. I understand pretty clearly the EPS dilution of \$0.25 to \$0.30. But it sounds like you're not really talking about at some point, some financial accretion or plans for that. So should we be thinking about more of this as a necessity for a product fit than revenue growth, and not really focus on earnings? Or how should we think about why you're neglecting to talk about earnings?

Nick Noviello - *NetApp, Inc. - EVP Finance, CFO*

Hey, Jim. It's Nick. I wouldn't think about it that way at all. So we've given you the near-term of this. We've indicated that we have an incredible opportunity in terms of the top-line growth rate of NetApp. We said it was going to take time and investment. And we tried to give you the near-term of that, which is FY 2017, and which is the fourth quarter.

I would not think beyond that. And that it's going to be that level of dilution from that point on. I would say as we integrate it into the fabric of NetApp and as we go forth and really benefit from this, we're going to see some nice top-line opportunity and we're going to see some operating margin opportunity from this as well as what we're doing in our own programs that I talked about on the call last time.

So we talked about a level of dilution for FY 2017. But I would not just carry it on from there. We'll give you more perspective after we close the acquisition.

Kris Newton - NetApp, Inc. - VP IR

Thanks, Jim.

James Suva - Citi - Analyst

Thank you, and happy holidays.

Kris Newton - NetApp, Inc. - VP IR

You too. Next question, please?

Operator

Srini Nandury, Summit Research

Srini Nandury - Summit Research - Analyst

All right. Thank for taking my question. George, I have a question regarding how you came to make this decision on purchasing this SolidFire product, I mean SolidFire Company. What has changed in the last two or three quarters to make this deal happen? Have you considered any other players?

George Kurian - NetApp, Inc. - CEO

Let me say that we have reviewed all of the all-flash array architectures in the market. And we believe that the one we acquired is the best and most differentiated set of capabilities for the customers' data centers of the future. As I outlined in my prepared statement, SolidFire combines the flexibility and efficiency of web-scale topologies with the performance and economics of all-flash. And it is unique in the market to being able to do so.

This gives us a compelling solution for expanding use cases in next-generation data centers. Over the last few quarters we have observed the acceleration of improvements in the performance and economics of all-flash technology. As solid-state technology becomes more and more available, it is being used for a wider range of use cases in the customer environment.

And we are pleased with our existing portfolio of technologies addressing enterprise use cases. We complement that with the best architecture in the market period for web-scale use cases.

Kris Newton - NetApp, Inc. - VP IR

Thanks, Srini. Next question?

Operator

Amit Daryanani, RBC Capital



Amit Daryanani - *RBC Capital Markets - Analyst*

Thanks a lot, guys. I guess, George, in the past NetApp has always talked about how you wouldn't want to trade your flash portfolio with anyone else's. That included your [comfort] on I think the AFF and E-Series. So I'm curious. What do you think has changed that all of a sudden you find a need to do a \$900 million deal to add to your portfolio that you guys in the past have said you liked a whole lot? And then as you think of this fiscal 2017 dynamics, are you essentially backing away from the 18% to 20% operating margin target that you've held in the past? Thanks.

George Kurian - *NetApp, Inc. - CEO*

So let me address the first of your two questions. As we've said, the performance and economics of flash are continually improving. And therefore it is being used to address a broader and broader range of use cases in the enterprise. And this causes us to want to address those customer segments that are now transitioning from disk to flash.

We are very pleased with the progress as reflected by the comments we made on this call about the growth rates of EF and our all-flash FAS product lines for the enterprise infrastructure use cases. We believe by adding SolidFire for web-scale use cases, we are uniquely positioned in the market as a clear leader and the only provider who can address all of these use cases to enable customers to build an all-flash data center, the only provider who has the reach, the expertise and the portfolio to deliver an all-flash data center. Everyone else is talking about a single-point product or a point technology trying to address an ever-expanding range of use cases. And we're not. So we're pleased with EF and all-flash FAS. Make no mistake about it. And we're excited about adding web-scale all-flash array capabilities with SolidFire.

Nick Noviello - *NetApp, Inc. - EVP Finance, CFO*

Amit, it's Nick. So in terms of the impact, what we've tried to do here is give you, again, a very preliminary perspective as to what this does to FY 2017 from an EPS perspective. So that is the guidance I've given you today, to look at the combination of the time and the investment we will make in SolidFire to ultimately result in that benefit. That is, we think over time, an ROI that is incredibly positive for NetApp.

Will it have impacts to FY 2017 overall as part of the overall of NetApp? Yes, it will. We're not at a place or at the appropriate time to even talk about those, given the fact that we've not yet closed the acquisition. We have a very preliminary set of estimates for you. We'll have more to say on our Q3 earnings call in mid-February. And we'll have much more to say as we move into our next fiscal year on our call in May.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Amit. Next question?

Operator

Brent Bracelin, Pacific Crest

Brent Bracelin - *Pacific Crest Securities - Analyst*

Thank you. I just wanted to clarify. Is it the intent to broadly distribute SolidFire products to all of your customers and partners through your own salesforce, or was the plan to use an overlay salesforce that SolidFire has today and target kind of that different customer base? And the reason why I ask that is because obviously you talked about this acceleration in shift to all-flash. You still have a largest portion of your business tied to hybrid and disk-based systems.

And so just trying to understand, are you trying to position this as an opportunity to go after new customers, or is there risk that your existing disk business falls at a faster pace, and SolidFire could help you offset some of that decline?

George Kurian - *NetApp, Inc. - CEO*

First of all, let me tell you that it's a bit too early to comment about post-merger integration plans. We have been thoughtful about how we would bring the capabilities of SolidFire to our broad base of customers and partners. And I can tell you that we see a lot of excitement, even in the last hour since we posted the release. We have been inundated with excited feedback from our customers and partners.

What I can tell you is our typical approach to make acquisitions successful is to combine the reach of the NetApp sales teams and partner teams, with the knowledge and specialty capability of the SolidFire sales team. And so we will do it in a way that allows the two of them to collaborate together, so that we can best accelerate SolidFire into the market, but maintain an integrated view and customer relationship.

Kris Newton - *NetApp, Inc. - VP IR*

Thanks, Brent. Next question?

Operator

(Operator Instructions) Erik Suppiger, JMP Securities

Erik Suppiger - *JPMorgan - Analyst*

Yes, thanks for taking the question. On the loan, I mean on the financing, do you have any loan covenants that are a consideration in terms of your ability to borrow domestically? And given that you are going to be taking up your domestic debt, does that prevent you from doing large domestic acquisitions further down the road?

Nick Noviello - *NetApp, Inc. - EVP Finance, CFO*

So, good afternoon. This is Nick. So, yes, we do have some covenants. And obviously we need to be conscious of those covenants over time. We've obviously been thoughtful about those with respect to this transaction. We feel very confident in our ability to finance this, to close this, and move through all the pieces. There is-- in addition as you know, we are a strong cash generator, both domestically and overseas. So over time, I do not anticipate that this acquisition would hinder us in our ability to look at other acquisitions.

Overall, as I indicated earlier, our view on M&A has not changed. Our view on capital allocation has not changed. It is a balanced view. And this acquisition fits very, very nicely into that view. We'll work through all the pieces on the debt, on the debt raise, on the close. We'll have much more to say at our earnings call in February.

Erik Suppiger - *JPMorgan - Analyst*

Thank you.

Operator

(Operator Instructions) Right now I'm showing no further questions. I'd like to pass it back to NetApp for any concluding comments.

George Kurian - *NetApp, Inc. - CEO*

So thank you for joining us on the call today. I want to make some closing comments. I'm excited about the potential of the SolidFire acquisition to further the top-line growth of NetApp over time. SolidFire complements our already strong industry-leading all-flash array portfolio, and accelerates our entry into the next-generation data center market.

It positions us as a clear leader in the rapidly-growing all-flash array market, and the only provider who can enable customers to build all-flash data centers, covering all the different use cases of all-flash arrays, performance, enterprise, and web-scale. Thank you. I look forward to speaking with all again on our third quarter fiscal year 2016 earnings call in February.

Operator

Okay, ladies and gentlemen, this does conclude your conference. You may now disconnect and have a great day.

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